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ESTEC SYSTEMS

2006 Annual Report

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Management Discussion & Analysis

2005/2006

Edmonton – 11 October 2006.

Once again we are proud to report a profitable year. With a profit of approximately $0.02 per share and a last trade price at the date of writing this report of $0.045, our annual profit amounts to 44% of our share price.

During the year management completed the last hurdles toward winding up the Oilfield subsidiary. As of year-end, we have completely written off the assets and liabilities. All that remains at this time is the legal winding up of the company which is scheduled for June 2007. Some legal fees will be expensed at that time.

In October 2005, Farr Canada, a division of McCoy Inc (TSX:MCB) licensed the designs for the top drive we had been manufacturing in the Oilfield subsidiary. At this time Farr Canada has hired a dedicated product manager who is marketing the top drive and preparing a manufacturing facility.

During the last year we have seen a significant staff turnover. The hot labor market in Alberta makes it challenging for companies to retain employees. During the year we have significantly increased wages to try to retain our employees and to recruit new talented engineers. This has been offset by increased rates for our consulting services. During this year, our engineering division has seen an improvement in the sales/salary ratio to 1.87, up from 1.77 last year. Management continues to monitor the ratio and still considers it to be lower than desired.

The main challenge facing management over the next year will be recruiting and retaining staff. A second challenge will be integrating new younger employees into the company and bringing them up to speed. A comprehensive review of the benefits plans are underway to ensure that we are not falling behind the industry.

Management continues to look at a number of new projects. Several projects look attractive, but would require us to partner with another company to ensure success. No commitments will be made unless the proper conditions for success are in place.

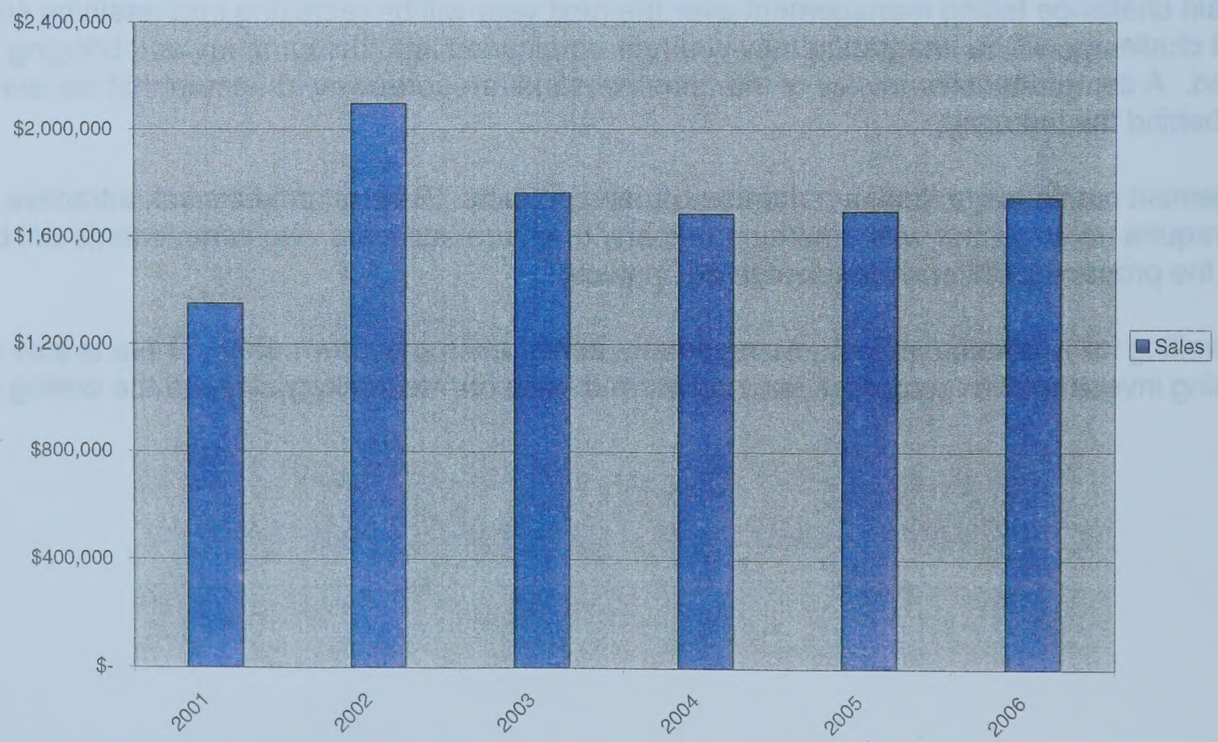
While waiting for a suitable project, management continues to pay down debt. There is also a continuing investment in computers and software to keep our technology close to the cutting edge.

Selected Annual Information

	Year ended June 30, 2006	Year ended June 30, 2005	Year ended June 30, 2004	Year ended June 30, 2003
Total Revenues	1,742,538	1,693,730	1,684,287	1,760,517
Income/(loss) before discontinued operations and extraordinary items	110,433	97,335	236,948	(805,250)
Basic income/(loss) per share	.01	.01	.02	(.08)
Diluted income/(loss) per share	.01	.01	.02	(.07)
Net income/(loss)	203,284	97,335	(43,147)	(842,916)
Basic income/(loss) per share	.02	.01	0	(.08)
Diluted income/(loss) per share	.02	.01	0	(.08)
Total Assets	726,360	2,181,428	2,209,777	2,334,439
Total long-term financial liabilities	335,691	1,888,123	1,995,425	656,097

Over the past four years, revenue from our engineering and computer consulting has risen steadily. Most of that is growth in the engineering services division. Overall sales in 2003 were higher because of the contribution of the discontinued Oilfield manufacturing division. Profitability of the engineering and computer consulting has risen slightly over the four years. The Assets and Liabilities of 2003 through 2005 include the discontinued operations, which forms the majority of the variation from year to year.

ESTec Systems Annual Sales



Summary of Quarterly Results

	For the 3 months ended 30 June 2006	For the 3 months ended 31 March 2006	For the 3 months ended 31 December 2005	For the 3 months ended 30 September 2005
Total Revenues	330,412	372,806	658,097	381,223
Income/(loss) before discontinued operations and extraordinary items	(32,880)	(476)	145,736	(1,947)
Basic and diluted income / (loss) per share	0	0	.01	0
Net income/(loss)	113,854	(1,548)	99,745	(8,767)
Basic and diluted income / (loss) per share	.01	0	.01	0

	For the 3 months ended 30 June 2005	For the 3 months ended 31 March 2005	For the 3 months ended 31 December 2004	For the 3 months ended 30 September 2004
Total Revenues	454,656	442,239	409,360	387,475
Income/(loss) before discontinued operations and extraordinary items	7,160	58,430	(23,179)	54,924
Basic and diluted income / (loss) per share	0	0	0	0
Net income/(loss)	45,782	32,076	(15,997)	35,474
Basic and diluted income / (loss) per share	0	0	0	0

The variation in sales is due to the general economic activity. The engineering revenues have changed slowly during this period. December 2005 saw an extraordinary billing as a large project reached completion.

Liquidity

The company has positive working capital. Over the next year the company expects to meet all cash requirements from cash flow. While the company has a significant amount of its receivables invested in a small number of clients, these funds are largely attributable to insurance clients and the insurance company has reserves allocated to pay these accounts. Management believes it has appropriately managed the company's credit risk.

Capital Resources

The company has a $250,000.00 line of credit available for any emergent capital outlays or other cash flow requirements. As of the end of June this line of credit had been drawn to $15,000. As of the end of September this line of credit has been repaid. Capital expenditures planned for the coming year are expected to be covered out of cash flow.

Off Balance Sheet Transactions

ESTec Oilfield subsidiary wrap up: During the year, management completed the last hurdles toward winding up the Oilfield subsidiary. As of year-end, we have completely written off the assets and liabilities. All that remains at this time is the legal winding up of the company which is scheduled for June 2007. Some legal fees will be expensed at that time.

Top drive manufacture: In October of 2005 ESTec Systems Corp. was pleased to announce the signing of a Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. The Agreement provides for royalty payments to Allan R. Nelson Engineering (1997) Inc. in relation to the licensing for the manufacture and sale of the top drives based upon designs prepared by Allan R. Nelson Engineering (1997) Inc.

At this time Farr Canada has hired a dedicated product manager who is marketing the top drive and preparing a manufacturing facility.

It is expected that this license could generate substantial royalties over the next five years. This will allow Nelson to recover the cost of developing the technology and contribute to the profitability of the company.

Transactions with related parties

During the year the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were at market prices, are as follows:

	For the twelve months ended 30 June 2006	For the twelve months ended 30 June 2005
Payment of rent to 262233 Alberta Ltd.	$ 90,000	$ 90,000
Due to related party, interest at prime + 1%, unsecured	$ -	$ 11,383
Due to directors, non-interest bearing, unsecured	$ 168,780	$ 168,945
Due to corporations controlled by directors, non-interest bearing, unsecured	$ 199,380	$ 227,688
	$ 368,160	$ 408,016
Less: current portion of due to related parties	32,469	69,719
	$ 335,691	$ 338,297

The long-term portion of the loans payable to related parties in the amount of $335,691 (2005 - $338,297) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year.

Included in trade accounts payable is $10,748 owing to a director.

Equity Transactions

During the first quarter the company recovered shares from a former director and an employee that had been purchased under a company loan agreement. The shares were returned to Treasury and cancelled at the price of the outstanding loan. This transaction has no effect on the balance sheet of the company as the loan and shares had already been offset against each other, based upon GAAP in prior years. In total, 274,467 shares were cancelled.

During the second quarter 300,000 share options were issued to selected directors and employees. As the strike price on these options ($0.10 per share) is above the market price at this time, no cost is shown on the books for these options. The fair value of these options is nominal and no expense has been recognized.

During the last quarter 40,000 options with an exercise price of $0.21 expired.

Other MD&A Requirements

Additional information relating to ESTec Systems and its subsidiaries can be found on SEDAR at www.sedar.com. Press releases announcing activities of the company will be posted on our web site www.estec.com.

On Behalf of the Board of Directors – October 11, 2006
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

H. Margaret Nelson, Director, CFO

Allan R. Nelson, Director

Anthony B. Nelson, President, Director

David E. Wright, Director

Barbara E. Fraser, Director

Solicitors

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Edmonton, Alberta
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Ph. (780) 427 4899

Auditors

Kingston Ross Pasnak LLP
2900 Bell Tower
10104 – 103 Avenue
Edmonton, Alberta
T5J 0H8

Ph. (780) 424-3000

Share Transfer Agent

Computershare Investor Services, Inc.
510 Burrard Street
Vancouver, British Columbia
V6C 3B9

Stock Exchange Listing

The shares of ESTec Systems Corporation are listed on the Toronto Venture Exchange
Trading Symbol: **ESE**

Consolidated Financial Statements of

ESTec Systems Corp.

Years ending June 30, 2006 and 2005

Index to Consolidated Financial Statements

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

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KRP LLP
KINGSTON ROSS PASNAK

August 11, 2006
Edmonton, Alberta

Auditors' Report

To the shareholders of ESTec Systems Corp.:

We have audited the consolidated balance sheets of ESTec Systems Corp. as at June 30, 2006 and 2005 and the consolidated statements of income and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2006 and 2005 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

ESTEC SYSTEMS CORP.

Years ended June 30, 2006 and 2005

	2006	2005
REVENUE	**$ 1,742,538**	**$ 1,693,730**
DIRECT EXPENSES	189,035	168,998
	1,553,503	1,524,732
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (see schedule on Page 18)	1,388,321	1,375,360
AMORTIZATION OF PROPERTY AND EQUIPMENT	31,509	30,730
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	19,410	19,410
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	3,830	1,897
	1,443,070	1,427,397
NET INCOME FROM CONTINUING OPERATIONS	**110,433**	**97,335**
INCOME FROM DISPOSAL OF DISCONTINUED OPERATIONS (Note 12)	**92,851**	**-**
NET INCOME	**203,284**	**97,335**
DEFICIT, BEGINNING OF YEAR	(1,329,036)	(1,426,371)
DEFICIT, END OF YEAR	**$ (1,125,752)**	**$ (1,329,036)**
BASIC AND DILUTED EARNINGS PER SHARE (Note11)		
Continuing Operations	**$ 0.01**	**$ 0.01**
Discontinued Operations	**0.01**	**-**
	$ 0.02	**$ 0.01**
Weighted average number of shares outstanding	10,461,629	10,736,096

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

ASSETS

		2006		2005
CURRENT ASSETS				
Accounts receivable	$	384,031	$	373,248
Work in progress		64,676		77,166
Prepaid expenses		50,356		44,595
Income taxes receivable		25,000		-
		524,063		495,009
PROPERTY AND EQUIPMENT (Note 3)		112,943		120,679
DEFERRED DEVELOPMENT COSTS (Note 4)		13,558		32,969
GOODWILL (Note 5)		75,796		75,796
ASSETS OF DISCONTINUED OPERATIONS (Note 12)		-		1,456,975
	$	726,360	$	2,181,428

LIABILITIES AND SHAREHOLDERS' EQUITY

		2006		2005
CURRENT LIABILITIES				
Bank indebtedness (Note 6)	$	46,791	$	150,185
Accounts payable and accrued liabilities		204,898		158,106
Current portion of obligation under capital lease		-		12,068
Current portion of due to related parties		32,469		69,719
		284,158		390,078
DUE TO RELATED PARTIES (Note 7)		335,691		338,297
LIABILITIES OF DISCONTINUED OPERATIONS (Note 12)		-		1,549,826
		619,849		2,278,201
SHARE CAPITAL (Note 9)		1,232,263		1,232,263
DEFICIT		(1,125,752)		(1,329,036)
		106,511		(96,773)
	$	726,360	$	2,181,428

APPROVED BY THE BOARD

________________ Director   ________________ Director

ESTEC SYSTEMS CORP.

Years ended June 30, 2006 and 2005

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Income from continuing operations	$ 110,434	$ 97,335
Items not affecting cash:		
Amortization of property and equipment	31,509	30,730
Amortization of product development costs	19,410	19,410
Loss on disposal of property and equipment	3,830	1,897
	165,183	149,372
Net change in non-cash working capital items (Note 13)	17,738	(46,725)
	182,921	102,647
CASH FLOW FROM DISCONTINUED OPERATIONS (Note 12)	-	831
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(29,603)	(50,014)
Proceeds on disposal of property and equipment	2,000	-
	(27,603)	(50,014)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of obligation under capital lease	(12,068)	(17,535)
Repayment of advances from related parties	(39,856)	(19,734)
	(51,924)	(37,269)
NET DECREASE IN BANK INDEBTEDNESS	103,394	16,195
BANK INDEBTEDNESS, BEGINNING OF YEAR	(150,185)	(166,380)
BANK INDEBTEDNESS, END OF YEAR	$ (46,791)	$ (150,185)

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 1
General

The Company owns and operates an engineering consulting firm and the principal operating subsidiary of the Company is Allan R. Nelson Engineering (1997) Inc.

The Company was incorporated under the Alberta Business Corporations Act and is listed with the TSX Venture Exchange.

Note 2
Significant Accounting Policies

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent upon future events, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of Presentation
These financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiaries, Allan R. Nelson Engineering (1997) Inc. and ESTec Oilfield Inc.

Revenue Recognition
Revenue from consulting and engineering contracts is recorded as the related service is provided on a completed contract basis. Revenue from sales of computer software and hardware and oilfield drilling systems is recorded when the related products are delivered and collection is reasonably assured.

Work in Progress
Costs recoverable for services provided but not yet billed is shown as work in progress. The cost is measured based on the number of hours allocated to the job multiplied by the hourly payroll rate of the professional and the actual cost of associated disbursements.

Income Taxes
The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Changes to the balances are recognized in income when they are expected to occur. A valuation allowance is provided to the extent that it is more likely than not that future tax assets may not be realized in the near term.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 2
Significant Accounting Policies
Continued...

Property and Equipment
Property and equipment are recorded at cost. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements, other than those of a major nature, are charged to expense as incurred. The Company provides for amortization at an annual rate, which will amortize the original cost to the estimated salvage value over the useful life of the assets.

Amortization is calculated using the declining balance method at the following annual rates:

	Rate
Office equipment	20%
Equipment under capital lease	20%
Computer hardware	20%
Computer software	30%
Inspection equipment	20%
Automotive equipment	30%

Deferred Development Costs
Deferred expenditures are expensed as incurred with the exception of costs, which meet criteria whereby the product is clearly defined and its costs are identifiable, the product is technically feasible, management has indicated their intention to produce and market the product, the future market for the product is clearly defined and adequate resources exist to complete the project. Engineering development costs are deferred and charged against revenues on a straight-line basis over five years commencing in the year that revenue is earned from the related development costs. If, at any time, it appears unlikely that capitalized development costs will be recovered through related future revenues, then the unamortized balance is written off as a charge to income in the year in which such a determination is made.

Goodwill
Goodwill represents the excess of the purchase price paid for Allan R. Nelson Engineering (1997) Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc., taking into account any events and circumstances which might have impaired the fair value. It was concluded that no impairment exists in the value of the goodwill at June 30, 2006 or 2005.

In accordance with CICA Section 3062, the goodwill has not been amortized since adoption of this policy in 2002.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 2
Significant Accounting Policies
Continued...

Stock based compensation
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in Note 9. On July 1, 2002, the Company adopted the requirements of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock Based Payments. The Company adopted the fair value based method to account for stock based transactions with non-employee directors. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, would be credited to share capital.

Earnings per share
Earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

Shares provided as security for any share purchase financing agreement are excluded from the calculation for the basic earnings per share. These shares have not been included in diluted earnings per share as the result is anti-dilutive.

Share Purchase Financing
Loans granted to purchase shares of the Company are accounted for as an asset, provided the following criteria are met:

a) the loan contains repayment terms and conditions in accordance with current arms length market terms;
b) the borrower has the ability to repay the loan;
c) the borrower is subject to recourse in the event of defaulting on the loan; and
d) management intention is to ensure repayment of the loan regardless of the share price of the company.

As these loans do not meet the above criteria, they are accounted for as a reduction in the share capital of the Company.

Lease Obligations
Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 2
Significant Accounting Policies
Continued...

Statement of Cash Flow
The Company uses the indirect method of presentation in its statement of cash flow.

Measurement Uncertainty
The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The significant estimates pertain to the recoverability of accounts receivable and work in progress, the physical and economic lives of property and equipment, and the net recoverable value of deferred development costs and goodwill.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 3
Property and Equipment

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 91,225	$ 54,792	$ 36,433	$ 50,284
Computer hardware	59,515	24,418	35,097	25,268
Office equipment	27,248	14,381	12,867	18,234
Equipment under capital lease	31,135	13,201	17,934	22,417
Inspection equipment	18,271	11,947	6,324	7,905
Automotive equipment	30,015	25,727	4,288	6,125
	257,409	144,466	112,943	130,233
Assets of discontinued operations (Note 12)	-	-	-	(9,554)
	$ 257,409	**$ 144,466**	**$ 112,943**	**$ 120,679**

Amortization provided for in the current year totaled $31,509, all of which relates to ongoing operations; (2005 - $30,730).

Note 4
Deferred Development Costs

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Engineering development costs	$ 100,905	$ 87,347	$ 13,558	$ 143,849
Assets of discontinued operations (Note 12)	-	-	-	(110,880)
	$ 100,905	**$ 87,347**	**$ 13,558**	**$ 32,969**

Amortization provided for in the current year totaled $19,410; (2005 - $19,410).

Significant estimates have been made by management in assessing the net recoverable value of engineering development costs. Actual results could differ from those estimates.

Note 5
Goodwill

	2006	2005
Goodwill, at cost	$ 133,150	$ 133,150
Less accumulated amortization (prior to 2002)	57,354	57,354
	$ 75,796	$ 75,796

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 6
Bank Indebtedness

Bank indebtedness is comprised of the following:

	2006	2005
Cash in bank	$ 19,140	$ 21,932
Cheques written in excess of bank balance	(50,931)	(52,117)
Bank operating lines	(15,000)	(120,000)
	$ (46,791)	$ (150,185)

The bank operating line is authorized to a total of $250,000 with interest payable at prime plus 1.5%. In addition, there is a $500,000 operating line relating to the discontinued operations, as described in Note 12. A general security agreement and limited guarantees from directors and related parties in the amount of $187,500 have been pledged as collateral for the bank operating lines.

Note 7
Related Party Transactions and Balances

During the year, the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were in the normal course of operations and measured at the exchange value agreed between the parties, are as follows:

	2006	2005
Payment of rent to a company controlled by certain directors	$ 90,000	$ 90,000

	2006	2005
Due to related party, interest at prime + 1%, unsecured	$ -	$ 11,383
Due to directors, non-interest bearing, unsecured	168,780	168,945
Due to corporations controlled by directors, non-interest bearing, unsecured	199,380	227,688
	368,160	408,016
Less: current portion of due to related parties	32,469	69,719
Due to related parties	$ 335,691	$ 338,297

The long-term portion of the loans payable to related parties in the amount of $335,691 (2005 - $338,297) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year.

Included in trade accounts payable is $10,748 owing to a director.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 8
Income Taxes

As at June 30, 2006, the Company and its subsidiaries have approximately $ 1,215,700 in non-capital losses and $ 873,000 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

2008	144,000
2009	202,300
2010	632,500
2011	-
2012	235,000
2013	1,900
	$ 1,215,700

The potential benefit of $429,800 (2005 - $482,100) of these non-capital losses has not been recorded in these financial statements.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 8
Income Taxes
Continued...

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of June 30, 2006 are as follows:

	2006	2005
Future income tax assets:		
Property and equipment	$ 439,200	$ 482,100
Non-capital losses	152,800	152,800
Capital losses	-	-
Valuation allowance	(518,000)	(556,600)
	74,000	78,300
Future income tax liabilities:		
Unbilled revenue	21,700	25,900
Property and equipment	21,000	14,400
Deferred development costs	4,800	11,500
Goodwill	26,500	26,500
	74,000	78,300
Net future tax assets (liabilities)	$ -	$ -

The components of income tax expense are as follows:

	2006	2005
Tax expense at the statutory rate of 34%	$ 44,802	$ 36,040
Amortization claimed in excess of capital cost allowance	2,774	(7,153)
Non-capital losses carried forward	-	-
Non-deductible meals and entertainment expense	165	1,285
Accounting loss on disposal of capital assets	-	738
Recovery of Valuation allowance	(52,300)	(40,700)
Change in substantively enacted rates	-	-
Permanent differences and other	4,559	9,790
	$ -	$ -

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 9
Share Capital

Authorized:
200,000,000 common shares without par value

Issued shares:

	2006		2005	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Balance - Beginning of year	10,736,096	$ 1,273,533	10,736,096	$ 1,273,533
Cancellation of shares	(274,467)	(41,170)	-	-
Balance - End of year	10,461,629	1,232,363	-	-
Demand share purchase loans	-	-	(280,000)	(41,170)
Balance - After share purchase financing	10,461,629	$ 1,232,363	10,456,096	$ 1,232,363

Demand share purchase loans
During the year, 274,467 shares were returned to treasury. The shares returned were in satisfaction of the demand share purchase loans. Because the stated capital reflects the impact of the share purchase loans, there is no change to the financial statement presentation

Stock option plan
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. These share options vest immediately once they have been granted. Outstanding stock options will expire over a period ending no later than October 24, 2010. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 9
Share Capital
Continued...

	2006			2005		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Number of shares under option						
Beginning of year	315,000	$	0.27	371,393	$	0.25
Options granted	300,000		0.10	-		-
Options exercised	-		-	-		-
Options cancelled or expired	(40,000)		0.21	(56,393)		0.23
End of year	575,000	$	0.19	315,000	$	0.27

Using the Black Scholes option pricing model, the fair value of the options noted above at the date of their issuance was $nil. No additional compensation expense was recorded.

At the end of the year, the following options were outstanding:

	Number of share options outstanding - June 30, 2006	**Weighted average remaining contractual life (years)**
Exercise price per share		
$0.10	300,000	4.32
$0.21	65,000	0.93
$0.30	210,000	0.69
	575,000	2.61

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 10
Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet include accounts receivable, bank indebtedness, accounts payable and accrued liabilities and obligations under capital lease. The fair value of these financial instruments approximate their carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the amounts due to and from employees, directors and related parties cannot be estimated, due to the uncertainty associated with the length of time until repayment.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables and unbilled revenue. Included in accounts receivable at June 30, 2006 is $93,404 due from the Company's three largest customers.

The Company's bank operating lines are subject to fluctuations in interest rates. Based on the amount of the operating line at June 30, 2006, fluctuations in the interest rate would not materially affect the operating results of the Company.

Note 11
Diluted earnings per share

Options to purchase 575,000 common shares during the year ended June 30, 2006 were included in the computation of diluted earnings per share.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 12
Discontinued Operations

Prior to the end of the 2004 fiscal year, the Company had entered into an agreement to dispose of the assets and repay certain liabilities related to ESTec Oilfield Ltd.

The following table provides additional information with respect to amounts excluded from the statement of operations derived from the assets/liabilities held for sale:

	2006	2005
Gain on expiry of debt	$ 92,851	$ -

The following table provides additional information with respect to amounts included in the balance sheet as assets/liabilities held for sale:

	2006	2005
Inventory	$ -	1,336,541
	-	1,336,541
Deferred development costs	-	110,880
Property and equipment	-	9,554
Total Assets	$ -	$ 1,456,975
Bank indebtedness	$ -	$ 518,846
Accounts payable and accrued liabilities	-	742,873
	-	1,261,719
Advances from shareholder	-	-
Advances from related parties	-	288,107
Long-term debt	-	-
Total Liabilities settled on disposal of assets	$ -	$ 1,549,826

262233 Alberta Ltd., controlled by certain directors of the Company, is a guarantor of the ESTec Oilfield Ltd. bank indebtedness.

ESTEC SYSTEMS CORP.

June 30, 2006 and 2005

Note 12
Discontinued Operation
Continued...

The following table provides additional information with respect to amounts included in the cash flow statement of funds provided by (used in) assets classified as discontinued operations.

	2006	2005
Net income of discontinued operations	$ 92,851	$ -
Item not affecting cash:		
Amortization	-	-
Gain on disposal of discontinued operations	-	-
Future income taxes	-	-
Funds used by discontinued operations	92,851	-
Net change in non-cash items		
Bank indebtedness included in discontinued operations	(518,846)	(4,327)
Accounts receivable	-	4,327
Inventory	1,336,541	
Prepaid expenses	-	1,021
Property and equipment	9,554	
Deferred development costs	110,880	
Accounts payable	(742,873)	(190)
Related parties	(288,107)	
	(92,851)	-
	$ -	$ 831

Note 13
Changes in non-cash working capital

	2006	2005
Accounts receivable	$ (10,784)	$ 12,266
Work in progress	12,490	(892)
Inventory	-	-
Prepaid expenses	(5,761)	8,673
Accounts payable and accrued liabilities	46,793	(66,772)
Income taxes payable	(25,000)	-
	$ 17,738	$ (46,725)

ESTEC SYSTEMS CORP.

Year ended June 30, 2006

	2006	2005
Salaries and benefits	$ 1,038,583	$ 1,047,398
Rent	90,000	90,000
Professional fees	50,940	36,064
Insurance	50,928	55,485
Office supplies and maintenance	34,625	25,669
Repairs and maintenance	29,809	15,413
Technology and telecommunications	23,961	24,238
Advertising and promotion	22,883	20,277
Bank charges and interest	15,466	27,235
Dues, memberships and business taxes	15,089	11,945
Public company compliance	10,627	12,256
Courier and freight	4,414	2,471
Office	759	1,939
Other costs	237	12,425
Bad debts (recovered)	-	(7,455)
	$ 1,388,321	$ 1,375,360

AR82

ESTEC
SYSTEMS

2006 Information Circular

TABLE OF CONTENTS

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS (VOTING & NON-VOTING)

NOTICE is hereby given that the Annual General Meeting of the Shareholders of ESTEC SYSTEMS CORP. (the "Company") will be held in the conference room of its head office at 17510 - 102 Avenue, Second Floor, Edmonton, Alberta, T5S 1K2 on Friday, the 24th day of November, 2006 at the hour of 2:00 o'clock in the afternoon for the following purposes:

1. To receive the report of the Directors;

2. To receive and consider the Audited Financial Statements for the period ending June 30, 2006 together with the Auditors' report thereon;

3. To appoint Auditors for the ensuing year and to authorize the Directors to fix the remuneration to be paid to the Auditors;

4. To ratify, confirm and approve all acts, deeds, payments of money and things done by and the proceedings of the Directors and Officers of the Company on behalf of the Company during the preceding year;

5. To fix the number of Directors for the ensuing year at Seven (7) and to authorize the Directors to appoint additional Directors to fill any vacancies which may exist at the time of such appointment;

6. To elect Directors for the ensuing year;

7. To consider, and if thought fit, approve the Company's 10% "rolling" Stock Option Plan in the form attached as Schedule "A" (rolling plans must receive shareholder approval yearly at the AGM).

8. To consider, and if thought fit, authorize the granting or amending of Directors' and Employees' Stock options to be allocated or amended at the discretion of the Board of Directors in such amounts and at such prices as may be acceptable to the securities regulatory authorities having jurisdiction over such matters;

10. To transact such other business as may properly be transacted at such meeting or at any adjournment thereof.

If you are unable to attend the Annual General Meeting in person, please read the Notes accompanying the Instrument of Proxy enclosed herewith and complete and return the Proxy within the time set out in the Notes. As set out in the Notes, the enclosed Proxy is solicited by Management, but you may amend it if you so desire by striking out the names listed therein and inserting in the space provided the name of the person you wish to represent you at the Meeting.

TAKE NOTICE THAT PURSUANT TO THE BRITISH COLUMBIA BUSINESS CORPORATIONS ACT YOU MAY UNTIL 23 NOVEMBER 2005 GIVE THE COMPANY A NOTICE OF DISSENT BY REGISTERED MAIL ADDRESSED TO THE COMPANY AT ITS REGISTERED OFFICE AT 16TH FLOOR, 609 GRANVILLE STREET, VANCOUVER, BC, V7Y 1C3 WITH RESPECT TO THE RESOLUTION TO CONTINUE THE COMPANY FROM BRITISH COLUMBIA INTO ALBERTA. AS A RESULT OF GIVING A NOTICE OF DISSENT YOU MAY, ON RECEIVING A NOTICE OF INTENTION TO PROCEED UNDER SECTION 243 OF THE ACT, REQUIRE THE COMPANY TO PURCHASE ALL YOUR SHARES WITH RESPECT OF WHICH THE NOTICE OF DISSENT WAS GIVEN.

DATED at Edmonton, Alberta this 11th day of October, 2006.

BY ORDER OF THE BOARD

"ANTHONY B. NELSON"

Anthony B. Nelson
President

INFORMATION CIRCULAR

Wednesday, October 11, 2006

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation of proxies by the Management of ESTEC SYSTEMS CORP. (the "Company"), for use at the Annual General Meeting (the "Meeting") of the Shareholders of the Company, to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting and at any adjournment thereof. The cost of solicitation will be born by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the accompanying form of Proxy are Directors of the Company. **A SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON TO ATTEND AND ACT FOR HIM ON HIS BEHALF AT THE MEETING OTHER THAN THE PERSONS NAMED IN THE ENCLOSED INSTRUMENT OF PROXY. TO EXERCISE THIS RIGHT, A PERSON SHALL STRIKE OUT THE NAMES OF THE PERSONS NAMED IN THE INSTRUMENT OF PROXY AND INSERT THE NAME OF HIS NOMINEE IN THE BLANK SPACE PROVIDED, OR, COMPLETE ANOTHER INSTRUMENT OF PROXY. THE COMPLETED PROXY SHOULD BE DEPOSITED WITH THE COMPANY'S REGISTRAR AND TRANSFER AGENT, COMPUTERSHARE INVESTOR SERVICES, INC., 510 BURRARD STREET, VANCOUVER, BRITISH COLUMBIA, V6C 3B9 AT LEAST 48 HOURS BEFORE THE TIME OF THE MEETING OR ADJOURNMENT THEREOF**, or to the Chairman of the meeting on the day of the meeting or any adjournment thereof.

The Instrument of Proxy must be signed by the Shareholder or by his Attorney in writing, or, if the Shareholder is a corporation, under its common seal signed by an officer, or attorney thereof.

A Shareholder who has given a proxy may revoke it at any time before it is exercised. A proxy may be revoked by instrument in writing executed by the Shareholder, or by his Attorney authorized in writing, or, if the Shareholder is a corporation, under its common seal, by an officer or attorney thereof duly authorized and deposited with the Registrar and Transfer Agent of the Company, Computershare Investor Services, Inc., 510 Burrard Street, Vancouver, British Columbia V6C 3B9 at least 48 hours before the time of the meeting, or any adjournment thereof, at which the proxy is to be used, or to the Chairman of the meeting on the day of the meeting or any adjournment thereof.

VOTING OF SHARES AND EXERCISE OF DISCRETION OF PROXIES

On any poll, the persons named in the enclosed Instrument of Proxy will vote the shares in respect of which they are appointed and where directions are given by the Shareholder in respect of voting for, against or withholding a favorable vote respecting any resolution and the proxy holder will do so in accordance with such direction.

IN THE ABSENCE OF ANY DIRECTION IN THE PROXY, IT IS INTENDED THAT SUCH SHARES WILL BE VOTED IN FAVOR OF THE MOTIONS PROPOSED TO BE MADE AT THE MEETING AS STATED UNDER THE HEADINGS IN THIS INFORMATION CIRCULAR. The Instrument of Proxy enclosed, when properly signed, confers discretionary authority with respect to amendments or variations to the matters which may properly be brought before the Meeting. At the time of printing this Information Circular, the Management of the Company is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting. However, if any other matters which are not now known to the Management should properly come before the Meeting, the Proxies hereby solicited will be exercised on such matters in accordance with the best judgement of the persons voting the proxy.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

On October 11, 2006 there were **10,461,629** common shares issued and outstanding, each share carrying the right to one vote. Only those shareholders of record on October 11, 2006 shall be entitled to vote at the forthcoming Annual General Meeting or any adjournment thereof in person or by proxy. Only common shares of the company have the right to vote and only common shares are issued and outstanding.

To the knowledge of the Directors and Senior officers of the Company, only the following own, directly or indirectly, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company:

Name of Shareholder	Number of Shares	Percentage of Issued and Outstanding
Allan R. Nelson Engineering Ltd. Edmonton, AB	**5,737,978**	**54.85%**
CDS & Co.	**3,178,977**	**30.39%**

The above information was supplied by the Registrar and Transfer Agent for the Company and the shareholders involved.

FINANCIAL STATEMENTS

Shareholders will be asked to approve the audited financial statements of the Company for the period ending June 30, 2006 together with the Auditor's Report thereon enclosed herewith. Additional copies of the Financial Statements, together with the Directors Report, Notice of Meeting, Information Circular and Proxy will be available from the Company's Registrar and Transfer Agent, Computershare Investor Services, Inc., 510 Burrard Street, Vancouver, British Columbia, V6C 3B9.

ELECTION OF DIRECTORS

The persons named in the enclosed Instrument of Proxy intend to vote for the election of a Board of Directors comprised of seven (7) persons. The names of further nominees for Directors may come from the floor at the Meeting.

Each Director elected will hold office until the next Annual General Meeting or until his successor is duly elected, unless his office is earlier vacated, in accordance with the Articles of the Company.

INFORMATION CONCERNING NOMINEES FOR DIRECTOR SUBMITTED BY MANAGEMENT

Name, Address, and Current Capacity in Company's Management	Principal Occupation and, if not at present an elected Director, then occupation during past five years	Year First Became a Director.	No. of Shares Owned by Nominee (1)
ANTHONY B. NELSON 13417 – 102 Avenue Edmonton, Alberta PRESIDENT & DIRECTOR	Management Consultant, Computer Software Specialist;	1988	51,000 (escrow) 465,225 (free trading)
H. MARGARET NELSON 10720 – 141 Street Edmonton, Alberta C.F.O. & DIRECTOR	Office Administrator; Employee of ESTec Systems Corp.	1987	255,000 (escrow) 3,464,296(3) (free trading)
ALLAN R. NELSON P.Eng. 10720 – 141 Street Edmonton, Alberta DIRECTOR	Consulting Engineer; Employee of Allan R. Nelson Engineering (1997) Inc., specialist in forensic engineering and machinery design for the oil industry.	1989	3,362,955(3) (free trading)
DAVID E. WRIGHT 647 Romaniuk Road NW Edmonton, Alberta T6R 1A3	The Osborne Group, Interim Management	2002	100,000
BARBARA E. FRASER 14017 - 52 Street NE Calgary, Alberta T3N 1B5	Director of Seair Inc. (SDS - TSXV) since September 17, 2002. Currently President and Director of Chimera Capital Corp., an Alberta based business consulting company and from 1994 through 2001, President and a Director of E-Z Riders Motorcycle Training Ltd. From 1999 to 2001, Vice-President of Emerging Equities Inc. and from 1996 to 1999, Vice-President of Rogers & Partners Securities Inc. (now Leede Financial).	2005	none

Notes:

(1) The number of shares beneficially owned by the above nominees for directors, directly or indirectly, is based on information furnished by the nominees themselves and/or the Registrar and Transfer Agent of the Company and includes shares held indirectly through holding companies.

(2) Anthony B. Nelson and Julia E. Nelson have a joint interest in 51,000 common escrow shares in the capital of the Company.

(3) Allan R. Nelson and H. Margaret Nelson each hold 50% of the shares in Allan R. Nelson Engineering Ltd., which holds 5,737,978 shares. This gives them each an indirect ownership of 2,868,989 additional shares, which has been included in this figure.

The members of the Audit committee of the Company consist of Anthony B. Nelson, David E. Wright and Barbara E. Fraser.

The nominees are all residents of Canada.

CORPORATE GOVERNANCE DISCLOSURE

Board of Directors

Barb E. Fraser	Independent	
Allan R. Nelson	Not Independent	Mr. Nelson holds 50% of the shares in Allan R. Nelson Engineering Ltd., which holds 5,737,978 shares (54.85% of issued and outstanding shares). Mr. Nelson is an employee of a subsidiary of the issuer.
H. Margaret Nelson	Not Independent	Mrs. Nelson holds 50% of the shares in Allan R. Nelson Engineering Ltd., which holds 5,737,978 shares (54.85% of issued and outstanding shares). Mrs. Nelson is an executive officer and employee of the company.
Anthony B. Nelson	Not Independent	Mr. Nelson is an executive officer and employee of the company.
David E. Wright	Independent	

Directorships

Barb E. Fraser — Ms. Fraser is a director of Seair Inc. (SDS, Toronto Venture Exchange)

Orientation and Continuing Education

There is no formal orientation program for new board members. During the board members' first board meeting time is spent to familiarize the member with the concerns facing the board and to answer any questions the new member may have.

There is no formal program for educating board members. A board member who wishes to have additional training may request it at a board meeting.

Ethics

The Allan R. Nelson Engineering (1997) Inc. subsidiary takes ethics of the engineering staff very seriously as a significant selling feature of the service is the integrity of the answers we provide when doing forensic investigations.

At the board level there is no formal ethics policy at this time.

Nomination of Directors

New candidates are identified by consulting with outside advisors such as our financial auditors.
New candidates are investigated and interviewed by several board members prior to proposing the new director to the board.

Compensation

Directors are compensated for their travel and out of pocket expenses. In addition each member of the board is entitled to stock options. Compensation is approved by the board of directors at a regular board meeting.

Other committees

There are no other committees

Assessment

There is no formal assessment program. If a board member is not pulling his or her weight, then this is discussed at a board meeting and the director is asked to improve specific performance (i.e. attend more meetings). If the member does not achieve the goal they are asked to resign.

STATEMENT OF EXECUTIVE COMPENSATION

The number of executive officers of the Company is two (2). No remuneration was paid to any of the executive officers of the Company for the period ended June 30, 2006 for services rendered in their capacity as such. There has been no other cash compensation, including salaries, fees, commissions and bonuses paid

nor will be paid to the executive officers of the Company for services rendered during the most recently completed financial year, being June 30, 2006.

Anthony B. Nelson, CEO and director of the company is an employee of ESTec Systems Corp. He is a management consultant earning $96,000/year.
H. Margaret Nelson, CFO and director of the company is an employee of ESTec Systems Corp. She is an office administrator earning $60,000/year.

DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

No pension or retirement benefit plans have been instituted by the Company and none are proposed at this time.

TERMINATION OF EMPLOYMENT, CHANGE IN RESPONSIBILITIES AND EMPLOYMENT CONTRACTS

There are no employment contracts between the Company or its subsidiaries and a Named Executive Officer (NEO).

There is no compensatory plan with respect to:

- resignation, retirement or any other termination of a NEO
- a change of control of the Company or any of its subsidiaries
- a change in the NEO's responsibilities following a change in control

COMPENSATION OF DIRECTORS

The number of directors of the Company is seven (7). Currently five (5) positions are filled. No remuneration was paid to any of the directors of the Company for the period ended June 30, 2006 for services rendered in their capacity as such. There has been no other cash compensation, including salaries, fees, commissions and bonuses paid nor will be paid to the directors of the Company for services rendered during the most recently completed financial year, being June 30, 2006.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Company has not issued any Equity Compensation Plans as yet. As at June 30, 2006 the Company does have outstanding share purchase options which have been granted to Directors and Employees of the Company, only the last being part of the 10% "rolling" stock option plan:

Date of Option	Expiry Date of Option	Option Price	Amount of Options granted	Outstanding
08 March 2002	08 March 2007	$0.30	250,000	210,000
05 June 2002	05 June 2007	$0.21	175,000	65,000
21 October 2005	21 October 2010	$0.10	300,000	300,000

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

There is no indebtedness of directors and executive officers.

MANAGEMENT CONTRACTS

The business of the Company is managed by its Directors and Officers and the Company has no management agreements with persons who are not officers or directors of the Company.

AUDIT COMMITTEE

Audit Committee Charter

I. Mandate

The audit committee is a committee established by the board of directors, populated by members of the board of directors, for the purpose of overseeing the accounting and financial reporting processes of the company, and its wholly owned subsidiaries. Financial oversight responsibilities include: review and approval of financial information prior to distribution; and, overseeing the work of the external auditor.

In addition to the financial oversight responsibility, the audit committee is also responsible for ensuring that internal financial controls are in place, and for providing a mechanism for employees to report irregularities in the financial reporting system.

Multilateral Instrument 52-110 mandates the existence of the audit committee. The multilateral instrument defines a minimum set of responsibilities and powers for the audit committee, and additional responsibilities and powers may from time to time be delegated to the audit committee by the board of directors. The audit committee is a part of the board of directors and reports back to the board as a whole. The audit committee may also report directly to the shareholders, and to regulatory bodies.

A. Scope

The scope of the audit committee extends to cover all wholly owned subsidiaries.
Where a subsidiary is partially owned by another shareholder or shareholders, then the audit committee shall coordinate with the audit committee for the subsidiary.

II. Roles and Responsibilities

The audit committee is an integral part of the preparations for the annual general meeting. All financial disclosures must have the approval of the audit committee.

A. Financial Oversight

The audit committee must review and approve annual and quarterly financial statements, and the associated Management Discussion and Analysis. Approval must be received from the audit committee before any public disclosure is made.
Any time that the external auditor or management makes a significant change in the accounting policy, the audit committee must review and approve the reasons for the change before the change to accounting policy is implemented by management.

B. Review and Approval of Financial Information Prior to Distribution

The audit committee must review and approve all press releases containing financial information prior to distribution.

C. External Auditor Oversight

The audit committee must select and recommend an external auditor for approval by the board.
The audit committee must approve the compensation of the selected external auditor.
The audit committee must pre-approve all non-audit contracts with the selected external auditor.

D. Complaints and Concerns Related to Accounting, Internal Accounting Controls or Auditing

The audit committee shall set up such procedures, as it feels appropriate, for handling complaints received relating to accounting, internal financial controls, and auditing matters.
The audit committee must establish procedures to allow for submission of confidential, anonymous complaints regarding questionable accounting or auditing matters.
The audit committee shall have responsibility for ensuring that all allegations of improper accounting or improper application of controls are investigated and addressed.

E. Hiring Policies

The audit committee shall review and approve in advance any proposal to hire a partner or employee of the external auditing firm, or of any external auditing firm engaged by the company within the past three years.
The audit committee shall review and approve in advance any proposal to hire a former partner or employee of the external auditing firm, or of any external auditing firm engaged by the company within the past three years where that individual worked for the auditing firm or former auditing firm during any of the past three years.

F. External Auditor Oversight

The audit committee shall oversee the work of the external auditor. This shall include:

- review of the letter of engagement and scope of the external audit;
- any decision on materiality of transactions;
- review of any adjusting entries suggested by the external auditor;
- review the management letter and oversee dispensation of issues contained therein;
- oversee resolution of any disagreements between management and the external auditor;
- such other issues as may come to the attention of the audit committee.

The audit committee has responsibility for resolving any disagreements with the external auditor.

G. Budget

The audit committee shall prepare an annual budget for approval by the board of directors. The budget shall include the cost of the annual external audit as well as any other expenses the audit committee expects to incur while discharging its duties. Additional funds may be requested from the board of directors, if required. The board of directors shall review and approve the annual budget for the audit committee.

H. Relationship with Management

Management shall report to the audit committee on any issue the audit committee may raise.

Management shall make available to the audit committee and the external or internal auditors, or consultants hired by the audit committee, full and unfettered access to the financial records of the company.
Management shall design and implement financial controls to address issues of control raised by the audit committee.

III. Composition and Training

The audit committee is appointed by the board of directors from the membership of the board of directors. The board of directors may set the number of members of the audit committee, however that number shall not be less than three. Membership of the audit committee shall be for a period of three years, commencing on the first day after the annual general meeting. At the end of that time, the board shall review the membership.

Members of the audit committee should be financially literate individuals. Where a member is appointed who is not financially literate, that individual shall undertake to become financially literate within a reasonable period of time. The initial term of a member who is not financially literate shall be limited to one year and the board of directors shall review the progress of the individual towards financial literacy before re-appointing the member.

While not required, the board of directors should attempt to fill the audit committee from the independent members of the board of directors.

In the event that a member ceases to be a member by way of death, resignation, or removal, the board of directors shall fill the vacant position within 6 months, or before the next annual meeting of the company.

The board of directors is responsible for recruiting the audit committee from its membership, with a priority to be placed upon external directors with strong financial knowledge.

Members of the audit committee sit at the pleasure of the Board of Directors. At any board meeting the Board of Directors may elect to remove a member from the audit committee, without cause.

The audit committee shall include in its budget such educational and training as may be required to keep the audit committee up to date on regulatory and financial issues. This can include additional training for new members who feel they need additional training to be able to discharge the duties of an audit committee member.

IV. Meetings

A. Phone attendance

Any member of the audit committee may attend a meeting of the audit committee by phone or videoconference.

B. Voting

A two-thirds majority of the audit committee is required to achieve an audit committee approval.

C. Quorum

Any meeting of the audit committee may be held with a minimum of one member. However approvals require a vote of two thirds of the total committee, so no audit committee approvals may be granted by a meeting where less than two thirds of the members are present in person or by telephone or video conferencing.

D. Sub delegation

By a two-thirds vote of the audit committee, responsibilities for a specific review or approval may be delegated to a single member of the committee. Each delegation shall be limited, specific and documented in the minutes of a meeting of the audit committee.

E. Notice of meetings

Notice of meetings shall be sent by e-mail to each member of the committee no less than 7 days in advance of the meeting, and a reminder notice shall be sent by e-mail the day before the meeting.

Notice may be waived by the committee if approved by 100% of the members of the committee.

F. Minutes

Minutes shall be taken at all meetings of the audit committee. The minutes shall be circulated to the members of the committee and approved at the next meeting of the committee. The minutes shall be available upon request to legal council, external auditor and the board of directors as a whole.

V. Powers

The audit committee may engage independent counsel, advisors and consultants to advise it where required. And, the audit committee may set compensation for such counsel, advisors and consultants.
The audit committee or its independent consultants may have access to the financial records of the company without supervision of management.
The audit committee has the authority to initiate internal audits of any transaction or contract that the audit committee feels requires additional investigation.
The audit committee may discharge its duties without reliance upon management.
The audit committee may communicate directly with external and internal auditors, and with any employee or contractor of the company, or its subsidiaries.

VI. Definitions

A. Independence

The meaning of independence is defined in detail in Multilateral Instrument 52-110 section 1.4. Generally, a member of the audit committee is independent if the member has no direct or indirect material relationship with the company or its subsidiaries.

B. Financially Literate

A member of the board shall be considered to be financially literate if their background is such that they can easily read and understand the financial statements of the company. While formal training is desired, experience with financial statement preparation and financial control systems is preferred.

C. Subsidiary

A subsidiary is a company we have invested in where we have sufficient investment to allow us a say in the management of the company, or where we have selected one or more of the board of directors to represent our interest.

VII. Planning and reporting schedule

The audit committee shall establish an annual planning and reporting schedule to ensure that the annual report and quarterly reports are reviewed and distributed on time.

Composition of Audit Committee

Anthony B. Nelson	Not independent	Financially literate
David E. Wright	Independent	Financially literate
Barb E. Fraser	Independent	Financially literate

Relevant Education and Experience of Audit Committee Members

Anthony B. Nelson: Mr. Nelson has a BSc. in Math from the University of Alberta as well as 3 years of study towards a Bachelor of Commerce degree from the University of Alberta. He is a certified ISO 17799 / BS 7799 Auditor and has experience auditing computer systems. He has 35 years experience managing businesses, including using financial statements and financial reporting systems, as well as implementing controls over financial records processing.

David E. Wright: Mr. Wright obtained a Bachelor of Commerce Degree from the University of Alberta in 1973. In addition he owns a private company for which he does all of the accounting. He has worked in industry in a number of capacities that included several years in various financial evaluation groups in different companies.

Barb E. Fraser: Ms. Fraser has completed the following courses from the Canadian Securities Institute, many of which cover extensive financial statement analysis:

Canadian Securities Course
Registered Representatives Course
Effective Management In The Canadian Securities Industry
Branch Managers Course
Partners, Directors & Officers Course
Conduct & Practices
Securities Law
Professional Financial Planners
Option Supervisors Course

Ms. Fraser has also taken the Public Company Compliance course offered by GlobalCCI.

She has been Vice President, Compliance for 2 regional brokerage firms as well as having been an Investigator for the Alberta Stock Exchange. These positions required a good financial working knowledge and familiarity with various internal controls and procedures.

She has been an active member of the Audit Committee of Seair Inc. since September, 2002 and keeps current on public financial reporting requirements.

Ms. Fraser currently reviews/assists with financial records and bookkeeping audit/organization for current clientele of her consulting company (Chimera Capital Corp.) She does the bookkeeping and financial statements as well as tax preparation and filing for her personal business as well as several other small-business clients.

External Auditor Service Fees

2005/2006		Nature of services
Audit Fees	$24,000.00	

2004/2005		Nature of services
Audit Fees	$22,000.00	
All other Fees	$ 2,172.50	**Audit Committee Charter review and assessment and First Quarter review**

APPOINTMENT AND REMUNERATION OF AUDITORS

The persons named in the enclosed Instrument of Proxy will vote for the appointment of Kingston Ross Pasnak LLP, Chartered Accountants, as Auditor for the Company, to hold office until the next Annual General Meeting of the Shareholders, at a remuneration to be fixed by the Board of Directors. Kingston Ross Pasnak was first appointed on July 19, 2004.

PARTICULARS OF OTHER MATTERS TO BE ACTED UPON

A. **Incentive Stock Options**

The Company currently has 575,000 share purchase options outstanding with the latest one expiring 24 October 2010. At the last annual meeting the company adopted a "rolling" stock option plan. Under this plan the maximum number of shares available for options would be 10% of the number of issued Common shares of the Company (non-diluted) at any given time. The new stock option plan must be ratified annually by the shareholders at the annual meeting. Attached as schedule "A" is a copy of the proposed stock option plan. Shareholders will be asked to authorize the Directors to grant or amend options to Directors, Employees and Consultants, to purchase shares of the Company in amounts and at prices acceptable to the regulatory authorities. The present policy of the Toronto Venture Exchange is that up to 10% of the issued share capital can be made available under an option plan without vesting provision, and option grants to individuals must not exceed 5% of issued shares to any one individual in a 12 month period and must not exceed 2% of issued shares to a consultant in a 12 month period. The present procedure is that the option exercise price must not be less than the Discounted Market Price. The Company is then immediately required to make a News Release to fix the price. Under a plan the Company has to file all the appropriate documentation with the Toronto Venture Exchange at the end of every month in which stock options are granted. The options may be exercisable for up to a period of five (5) years but only during the tenure of office of the Employee, Director or Consultant and for a maximum of ninety (90) days thereafter. Option exercise prices may be amended only after one (1) year has expired from the date of their granting.

The Company has to receive Exchange acceptance of a rolling plan each year after initial acceptance. The Company has obtained the acceptance of the TSX Venture Exchange for the Company's 10% "rolling" stock option plan, after a minor change had been made to article 11(c) on 28 September 2006.

Shareholders will be asked to authorize the Directors to issue Directors' and Employees' Stock Options to be allocated at the discretion of the Board of Directors in such amounts and at such prices as may be acceptable to the regulatory authorities having jurisdiction over such matters.

B. **Oil wells**

In October 2005, the company sold its one-fifth interest in two oil properties.

C. **Other Matters**

The management of the Company knows of no other matters to come before the meeting other than those referred to in the Notice of Meeting. Should any other matters properly come before the Meeting, the shares represented by the Proxy solicited hereby will be voted on such matters in accordance with the best judgement of the persons voting the proxy.

ADDITIONAL INFORMATION

Additional information relating to the company is on SEDAR at www.sedar.com.

To request copies of the company's financial statements and Management Discussion & Analysis (MD&A) you can write to us at the following address:

ESTec Systems Corp.
#209, 17510 – 102 Avenue
Edmonton, Alberta
T5S 1K2,

OR request a copy via e-mail at the following e-mail address:

investor@estec.com

Copies of our annual and interim financial statements can also be found on our website:

http://www.estec.com/investors/download.htm

Financial Information is provided in the company's comparative financial statements and MD&A for its most recently completed financial year.

DATED at Edmonton, Alberta this 11th day of October, 2006.
BY ORDER OF THE BOARD

"ANTHONY B. NELSON"

Anthony B. Nelson
President

NOTES AS TO THE INSTRUMENT OF PROXY
FOR THE ANNUAL GENERAL MEETING

To be held on Friday, November 24, 2006

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1. THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED ON ITEMS 1 THRU 8 AS THE SHAREHOLDER MAY HAVE SPECIFIED BY MARKING AN "X" IN THE SPACES PROVIDED FOR THAT PURPOSE. IF NO CHOICE IS SPECIFIED, THE SHARES WILL BE VOTED AS IF THE SHAREHOLDER HAD SPECIFIED AN AFFIRMATIVE VOICE.

2. IF THE SHAREHOLDER DOES NOT WANT TO APPOINT THE PERSON NAMED IN THE INSTRUMENT OF PROXY, HE SHOULD STRIKE OUT HIS NAME AND INSERT IN THE BLANK SPACE PROVIDED, THE NAME OF THE PERSON HE WISHES TO ACT AS HIS PROXY. SUCH OTHER PERSON NEED NOT BE A SHAREHOLDER OF THE COMPANY.

3. The instrument of Proxy will not be valid unless it is dated and signed by the Shareholder or by his Attorney duly authorized by him in writing, or, in the case of a body corporate, is executed under its corporate seal or by an officer or officers or Attorney for the company duly authorized (provide full legal name of the body corporate, the name and position of the person giving voting instructions on behalf of the body corporate and the address for service of the body corporate).

4. The Instrument of Proxy to be effective must be deposited with its Registrar and Transfer Agent, Computershare Investor Services, Inc., 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, at least 48 hours before the time of the Meeting, or adjournment thereof, at which the proxy is to be used, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

5. This proxy is solicited on behalf of the Management of the Company.

(Name and address as registered:

- **Please notify the Company of any change in your address.)**

"SCHEDULE A"

ESTEC SYSTEMS CORP.
DIRECTORS', MANAGEMENT AND EMPLOYEES' 10% ROLLING STOCK OPTION PLAN

1. PURPOSE OF THE PLAN

ESTec Systems Corp.'s 10% Rolling Stock Option Plan (the "Plan"), is intended to provide additional incentive to directors, officers, employees and consultants of the Corporation or its subsidiaries (ESTec Systems Corp. and/or its subsidiaries, as the context may require, is/are referred to herein as the "Corporation") by encouraging them to acquire shares below market value of the common stock of the Corporation through options, thereby increasing such directors/officers/employees/consultants' proprietary interest in the business of the Corporation and providing them with an increased personal interest in the continued success and progress of the Corporation, the result of which will promote both the interest of the Corporation as well as its shareholders.

2. DEFINITIONS

Whenever used herein, the following words and expressions shall have the following meanings, namely:

a. **"Board"** means the board of directors of the Corporation as it may be constituted from time to time;

b. **"Consultant"** means consultant as that term is defined in Canadian Venture Exchange Policy 4.4;

c. **"Corporation"** means ESTec Systems Corp., and/or it's subsidiaries as the context may require;

d. **"Eligible person"** means a director, officer, employee or consultant of the Corporation eligible for participation in the Stock Option Plan;

e. **"Exchange"** means Canadian Venture Exchange;

f. **"Option"** means an option granted under the terms of the Stock Option Plan;

g. **"Option Period"** means the period during which an Option may be exercised;

h. **"Optionee"** means a Director, Member of Management, Employee or Consultant of the Corporation to whom an Option has been granted under the terms of the Stock Option Plan.

i. **"the Plan"** means the plan established and operated as outlined below;

j. **"Shares"** means any securities of the Corporation from time to time authorized by the charter documents of the Corporation;

3. ADMINISTRATION OF THE PLAN

This Plan shall be administered by the Board of the Corporation. The Board shall have the sole power:

a. subject to the provisions of the Plan, to determine the terms and conditions of all Options; to construe and interpret the Plan and Options granted under it; to determine the time or times an Option may be exercised at any one time, and when an Option may terminate; to establish, amend and revoke rules and regulations relating to the Plan and its administration; and to correct any defect, supply any omission, or reconcile any inconsistency in the Plan, or in any Option Agreement, in a manner and to the extent it shall deem necessary, all of which determinations and interpretations made by the Board shall be conclusive and binding on all Optionees and on their legal representatives and beneficiaries; and

b. to determine all questions of policy and expediency that may arise in the administration of the Plan and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interest of the Corporation.

4. SHARES SUBJECT TO THE PLAN

The Stock which may be issued pursuant to Options granted under the Plan shall not exceed in the aggregate 10% of issued and outstanding shares, or 1,046,162 shares, including all options issued previously pursuant to or not pursuant to a stock option plan.

In addition, the aggregate number of shares available for issuance under the Plan to any one individual in a 12 month period shall not exceed 5% of the issued and outstanding shares at the time of granting, unless any such stock option grant or grants are approved by the Exchange and by the disinterested shareholders of the Corporation.

If any Options granted under the Plan terminate, expire or are surrendered without having been exercised in full, the number of shares of Stock not purchased under such Options shall be available again for the purpose of the Plan.

5. GRANTING OF OPTIONS

The Board may at any time authorize the granting of Options to such eligible persons as it may choose, subject to the provisions of the Plan. The date of each grant of Options shall be determined by the Board when the grant is authorized.

Each option granted to an eligible person shall be evidenced by a stock option agreement with terms and conditions consistent with the Plan and as approved by the Board (which terms and conditions need not be the same in each case and may be changed from time to time).

6. PERSONS ELIGIBLE FOR OPTIONS

Only bona fide Directors, Officers, Employees and Consultants of the Corporation shall be eligible to receive the grant of Options under the Plan. The Board shall determine the directors, officers, employees and consultants to whom Options shall be granted, the time or times such Options shall be granted, the number of shares to be subject to each Option and the times when each Option may be exercised.

7. EXERCISE PRICE

The Exercise price of each share of Stock shall be determined by the Board from time to time, but shall not be lower than the lowest exercise price permitted by the Canadian Venture Exchange. The maximum allowable discounts available when setting the option exercise price will be based on the Discounted Market Price as that term is defined in Canadian Venture Exchange Policy 1.1.

8. DURATION OF OPTIONS

The Option Period shall be for such term as the Board may determine from time to time but shall not be greater than five years from the date such Option is granted.

Subject to earlier termination as provided herein, any outstanding Option and all unexercised rights thereunder shall expire and terminate automatically upon the earlier of

(i) thirty (30) days after the cessation of the employment of the Optionee by the Corporation for any reason other than death;
(ii) the date which is one year following the date on which the Optionee's service with the Corporation ceases due to death;
(iii) the date of expiration of the Option determined by the Board at the time the Option is granted; and
(iv) the date five (5) years after the granting of the option.

9. EXERCISE OF OPTIONS

An Option may be exercisable in installments or otherwise upon such terms as the Board shall determine when the Option is granted. All stock options and any Listed Shares issued on the exercise of stock options must be legended with a four month Exchange hold period commencing on the date the stock options are granted.

The exercise of any Option will be contingent upon receipt by the Corporation of cash payment of the full purchase price for the Shares being purchased. No Optionee or his legal representatives will be, or will be deemed to be, a holder of any shares subject to an Option, unless and until certificates for such Shares are issued to him or them under the terms of the Stock Option Plan.

10. NONTRANSFERABILITY OF OPTIONS

a. No Option granted under the Plan shall be assignable or transferable by the Optionee, either voluntarily or by operation of law, other than by will or the laws of descent and distribution, and, during the lifetime of the Optionee, shall be exercisable only by the Optionee.

b. If an Optionee ceases before the expiry of the Term to be a director, officer, employee or consultant of the Corporation by reason of the death of such Optionee, then the executor named in the will or the administrator of the estate of such Optionee shall have the right to exercise the Option in the place of such Optionee for a period of one (1) year from the date of death of the Optionee.

11. CONDITIONS OF GRANTING OPTIONS

An aggregate of 10% of the issued Shares of the Corporation (on a non-diluted basis) will be available for issuance upon the exercise of options granted under the Plan.

a. No more than 5% of the issued shares of the Issuer may be granted to any one individual in any 12 month period;

b. No more than 2% of the issued shares of the Issuer may be granted to any one Consultant in any 12 month period;

c. The aggregate number of options granted to Persons employed to provide Investor Relations Activities must not exceed 2% of the issued shares of the Issuer in any 12 month period, calculated at the date the option was granted.

   Options issued to consultants providing Investor Relations services must vest in stages over 12 months with no more than ¼ of the options vesting in any three month period.

12. LOANS TO EMPLOYEES

Subject to the laws applicable to the Corporation, the Board may at any time authorize the corporation to loan money to an Eligible person on such terms and conditions as the Board in its sole discretion may determine, to assist such Eligible person to exercise an Option held by him, but in no case shall that Eligible person trade purchased shares until such loan has been fully repaid to the Corporation.

13. EMPLOYMENT

Nothing contained in the Plan shall confer upon any Participant any right with respect to employment or continuance of employment with the Corporation or interfere in any way with the right of the Corporation to terminate the Participant's employment at any time. Participation in the Plan by a Participant is voluntary.

14. RECORD KEEPING

The Corporation shall maintain a register in which shall be recorded:

a. the name and address of each Optionee;

b. the number of Options granted to an Optionee and the number of Options outstanding.

15. SHAREHOLDER APPROVAL OF PLAN

Approval of the Plan or amendments to the Plan will be sought every year at the Corporation's Annual General Meeting of the shareholders. Evidence that the majority of the Voting Shares are in favour of the proposal is not an acceptable substitute. Shareholder approval can be given at a meeting of the shareholders after the establishment of the Plan, grant of options or amendment of options provided that no options are exercised under the Plan, individual grant or amendment before the meeting.

16. DISINTERESTED SHAREHOLDER APPROVAL

a. Disinterested Shareholder approval will be obtained if

    i) a stock option plan, together with all of the Issuer's previously established and outstanding stock option plans or grants, could result at any time in:

        A) the number of shares reserved for issuance under stock options granted to Insiders exceeding 10% of the issued shares;

        B) the grant to Insiders, within a 12 month period, of a number of options exceeding 10% of the issued shares; or

    ii) the Issuer is decreasing the exercise price of stock options previously granted to Insiders.

    iii) the aggregate number of shares available for issuance under the Plan to any one individual within a 12 month period exceeds 5% of the issued and outstanding shares

b. if (a) applies, the proposed grant(s) or plan must be approved by a majority of the votes cast by all Shareholders at the Shareholders' meeting excluding votes attaching to shares beneficially owned by:

    i) Insiders to whom options may be granted under the stock option plan; and

    ii) Associates of Persons referred to in (b)(i).

17. EXCHANGE APPROVAL

The terms of the Options granted from time to time hereunder, and the Optionees to whom Options are granted, are subject to the Exchange accepting notice of such terms and proposed Optionees.

18. EFFECT OF WIND-UP, AMALGAMATION OR MERGER

If the Corporation during the Option Period determines to dissolve or wind-up, amalgamate or merge into or with any other body corporate or bodies corporate so that the Corporation is not the resulting corporation, whether the same be done by way of arrangement, sale of its assets and undertakings, winding-up or otherwise howsoever, or if there is any capital reorganization or reclassification of the share capital of the Corporation or any consolidation or merger of the Corporation as aforesaid, or the sale or distribution of all or substantially all of the Corporation's assets to any other body corporate, adequate provision shall be made by the Corporation so that there shall be substitution for the Option shares, the shares, securities or assets issued, paid or payable in exchange for the Option Shares.

19. REPRESENTATION OR WARRANTY

The Corporation makes no representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

20. INTERPRETATION

Unless the context otherwise requires,

a. words importing male persons include female persons and corporations; and

b. words in the singular include the plural and words in the plural include the singular.

This Stock Option Plan was approved by the Board of Directors of the Corporation on the 28th day of September 2005.

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Anthony B. Nelson, President